

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Charter Township of Midland	County Midland
Fiscal Year End December 31, 2005	Opinion Date January 28, 2006	Date Audit Report Submitted to State June 15, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

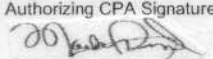
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Burnside & Lang, P.C.		Telephone Number 989-835-7721	
Street Address 5915 Eastman Avenue, Suite 100		City Midland	State MI
		Zip 48640	
Authorizing CPA Signature 	Printed Name Mark R. Freed		License Number 1101012221

CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN

FINANCIAL STATEMENTS
For The Year Ended December 31, 2005

CHARTER TOWNSHIP OF MIDLAND
BOARD OF TRUSTEES

Terry Holt	Supervisor
Tim Mott	Treasurer
Korene Labadie	Clerk
Shelly Armstrong	Trustee
Jim Avery	Trustee
Mike McCann	Trustee
Mark Radosa	Trustee

POPULATION-2000
2,297

STATE EQUALIZED VALUATION-2005
\$69,750,943

STATE TAXABLE VALUE-2005
\$60,580,018

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN**

**AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2005**

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Independent Auditors' Report

Members of The Township
Board of Trustees
Charter Township of Midland
Midland County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Charter Township of Midland, Midland County, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Charter Township of Midland, Midland County, Michigan, as of December 31, 2005, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 4 and 22, are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Burnside & Lang, P.C.

Midland, Michigan
January 28, 2006

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2005**

Using This Annual Report

This annual report of the Charter Township of Midland (the "Township") consists of a series of financial statements. The Government-Wide Statement of Net Assets and the Government-Wide Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. The Governmental Fund financial statements of the Township tell how these services were financed in the short-term, as well as what remains for future spending. The Governmental Fund financial statements of the Township also report the Township's operations in more detail than the Government-Wide Statements of Net Assets and the Government-Wide Statements of Activities.

The Township As A Whole

The net assets of the Township were \$3,449,202. In a condensed format, the table below shows net assets for the Township for the years ended December 31, 2005 and 2004:

	2005	2004
Current Assets	\$ 3,598,426	\$ 3,407,052
Noncurrent Assets	3,966,555	4,069,110
Total Assets	<u>7,564,981</u>	<u>7,476,162</u>
Liabilities	<u>(4,115,779)</u>	<u>(4,200,607)</u>
Net Assets:		
Invested in Capital Assets	896,555	854,110
Restricted	1,204,744	1,223,392
Unrestricted	<u>1,347,903</u>	<u>1,198,053</u>
Total Net Assets	<u>\$ 3,449,202</u>	<u>\$ 3,275,555</u>

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2005**

The Township As A Whole (Continued)

Unrestricted net assets is the part of net assets that can be used to finance day to day operations. The current level of unrestricted net assets for the Township stands at \$1,347,900, or about 190% of operating expenses. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating. The following table shows the changes of the net assets for the years ended December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Program Revenues		
Charges for services	\$ 144,991	\$ 235,460
Capital grants and contributions	-	-
General Revenues		
Property taxes	242,128	228,930
State revenue sharing	173,796	137,501
Contributions from local units	162,452	133,736
Interest earnings	112,801	60,107
Miscellaneous	2,901	550
Total Revenues	<u>694,078</u>	<u>560,824</u>
Program Expenses		
General government	272,594	331,346
Fire protection	90,050	84,780
Building inspection and regulation activities	11,866	11,506
Public works	71,733	71,733
Flood control	822	1,057
Township improvements	28,578	25,335
Planning and zoning	17,189	6,424
Interest and fiscal charges	172,590	182,390
Total governmental activities	<u>665,422</u>	<u>714,571</u>
Change in net assets	<u>\$ 173,647</u>	<u>\$ 81,713</u>

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2005**

General Fund Budgetary Highlights

Over the course of the year the Township Board amended the budget to take into account events during the year. Total expenditures in the budget for the general fund were \$349,012. Overall, the general fund had a positive variance of \$93,211.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

Exhibit 2

**CHARTER TOWNSHIP OF MIDLAND
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2005**

	<u>2005</u>
ASSETS	
Cash and cash equivalents	\$ 2,259,630
Accounts receivable	822,115
Taxes receivable	162,808
Assessments receivable	236,839
Due from other funds	89,484
Due from other governmental units	27,550
Capital assets:	
Land	\$ 102,400
Buildings and improvements, net	338,432
Township equipment, net	1,659
Fire department equipment, net	72,945
Fire department vehicles, net	277,552
Water system, net	3,173,567
Total capital assets	<u>3,966,555</u>
Total assets	<u>7,564,981</u>
LIABILITIES	
Accounts payable	34,175
Due to other township funds	236,839
Due to other governmental units	-
Deferred revenue	774,765
Long-term liabilities:	
Portion due or payable within one year:	
Bonds and contracts payable	155,000
Portion due or payable after one year:	
Bonds and contracts payable	<u>2,915,000</u>
Total liabilities	<u>4,115,779</u>
NET ASSETS	
Invested in capital assets, net of related debt	896,555
Restricted for:	
Debt service	1,204,744
Unrestricted	<u>1,347,903</u>
Total net assets	<u>\$ 3,449,202</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF MIDLAND
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended December 31, 2005

Activities:	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General Government:					
Township board	\$ 44,206	\$ -	\$ -	\$ -	\$ (44,206)
Supervisor	12,715	-	-	-	(12,715)
Treasurer	16,107	-	-	-	(16,107)
Assessing	12,000	-	-	-	(12,000)
Clerk	14,857	-	-	-	(14,857)
Elections	1,648	-	-	-	(1,648)
Board of review	920	-	-	-	(920)
Buildings and grounds	19,108	31,150	-	-	12,042
All other general government	151,118	-	-	-	(151,118)
Fire protection	89,966	27,661	-	-	(62,305)
Building inspection and regulation activities	11,866	3,253	-	-	(8,613)
Public works	71,733	29,940	-	-	(41,793)
Flood control	822	-	-	-	(822)
Township improvements	28,578	52,987	-	-	24,409
Planning and zoning	17,189	-	-	-	(17,189)
Interest and fiscal charges	172,590	-	-	-	(172,590)
Total governmental activities	\$ 665,422	\$ 144,991	\$ -	\$ -	(520,431)
General revenues:					
Property taxes, levied for general purposes					242,128
State revenue sharing					173,796
Contributions from local units					162,452
Interest earnings					112,801
Miscellaneous					2,901
Total general revenues					694,078
Change in net assets					173,647
Net assets-beginning					3,275,555
Net assets-ending					\$ 3,449,202

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF MIDLAND
GOVERNMENTAL FUND BALANCE SHEET
December 31, 2005**

	General Fund	Flood Control Fund	Township Improvement Revolving Fund	Water Debt Service Fund	Building Department Fund	Total
ASSETS						
Cash and cash equivalents	\$ 1,227,818	\$ 7,976	\$ 1,017,473	\$ 3,718	\$ 2,645	\$ 2,259,630
Accounts receivable, net	8,546	-	813,569	-	-	822,115
Taxes receivable, net	162,808	-	-	-	-	162,808
Due from other township funds	35,575	-	199,746	-	1,518	236,839
Due from tax fund	89,484	-	-	-	-	89,484
Due from other governmental units	27,550	-	-	-	-	27,550
Total assets	\$ 1,551,781	\$ 7,976	\$ 2,030,788	\$ 3,718	\$ 4,163	\$ 3,598,426
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 16,272	\$ -	\$ 17,903	\$ -	\$ -	\$ 34,175
Due to other township funds	199,193	-	37,094	-	552	236,839
Deferred revenue	-	-	774,765	-	-	774,765
Total liabilities	215,465	-	829,762	-	552	1,045,779
Fund balances:						
Reserved for:						
Unreserved	1,336,316	7,976	1,201,026	3,718	3,611	2,552,647
Total fund balances	1,336,316	7,976	1,201,026	3,718	3,611	2,552,647
Total liabilities and fund balances	\$ 1,551,781	\$ 7,976	\$ 2,030,788	\$ 3,718	\$ 4,163	\$ 3,598,426

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF MIDLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
December 31, 2005

Total fund balances for governmental funds (Exhibit 4) \$ 2,552,647

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$	102,400	
Buildings and improvements, net of \$273,667 accumulated depreciation		338,432	
Township equipment, net of \$33,618 accumulated depreciation		1,659	
Fire department equipment, net of \$25,711 accumulated depreciation		72,945	
Fire department vehicles, net of \$454,315 accumulated depreciation		277,552	
Water system, net of \$413,093 accumulated depreciation		<u>3,173,567</u>	
Total capital assets			3,966,555

Long-term liabilities applicable to the Township's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets. Balances at December 31, 2005 are:

Midland County Water Supply System Bonds, Series 2000	\$	<u>(3,070,000)</u>	
			<u>(3,070,000)</u>

Total net assets of governmental activities (Exhibit 2)	\$	<u><u>3,449,202</u></u>	
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The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF MIDLAND
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES
For the Year Ended December 31, 2005

	General Fund	Flood Control Fund	Township Improvement Revolving Fund	Water Debt Service Fund	Building Department Fund	Total
REVENUES						
Property taxes and related fees	\$ 242,128	\$ -	\$ -	\$ -	\$ -	\$ 242,128
Licenses and permits	18,781	-	-	-	11,159	29,940
State aid	173,796	-	-	-	-	173,796
Contributions from local units	-	-	162,452	-	-	162,452
Charges for services	27,661	-	31,150	-	-	58,811
Interest and dividends	31,786	84	79,799	1,132	-	112,801
Rents and royalties	2,743	-	-	-	-	2,743
Fines and forfeits	510	-	-	-	-	510
Special assessments	-	-	52,987	-	-	52,987
Miscellaneous	2,901	-	-	-	-	2,901
Total revenues	500,306	84	326,388	1,132	11,159	839,069
EXPENDITURES						
General government	255,603	-	-	-	-	255,603
Public safety	61,220	-	-	-	11,866	73,086
Public works	-	822	28,578	-	-	29,399
Community development	17,189	-	-	-	-	17,189
Capital outlay	15,000	-	-	-	-	15,000
Debt service	-	-	-	317,590	-	317,590
Total expenditures	349,012	822	28,578	317,590	11,866	707,867
Excess (deficiency) of revenues over expenditures	151,294	(738)	297,810	(316,458)	(707)	131,202
OTHER FINANCING SOURCES (USES)						
Transfers-in	-	-	-	231,470	7,000	238,470
Transfers-out	(7,000)	-	(231,470)	-	-	(238,470)
Total other financing sources and uses	(7,000)	-	(231,470)	231,470	7,000	-
Net change in fund balances	144,294	(738)	66,340	(84,988)	6,293	131,202
Fund balances-beginning	1,192,021	8,714	1,134,686	88,706	(2,682)	2,421,445
Fund balances-ending	\$ 1,336,316	\$ 7,976	\$ 1,201,026	\$ 3,718	\$ 3,611	\$ 2,552,647

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF MIDLAND
RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
December 31, 2005**

Net change in fund balances - total governmental funds (Exhibit 5)	\$	131,202
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$117,555) exceeded capital outlay (\$15,000) in the current period.		(102,555)
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Bond proceeds and capital leases are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Repayments:

Midland County Water Supply System Bonds, Series 2000	145,000	145,000
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Change in net assets of governmental activities (Exhibit 3)	\$	173,647
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The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF MIDLAND
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
CURRENT TAX FUND
December 31, 2005

ASSETS

Cash and cash equivalents	\$ 491,623
Taxes receivable	-
Total assets	<u>491,623</u>

LIABILITIES

Due to other governmental units	402,140
Due to other funds	89,483
Total liabilities	<u>491,623</u>
NET ASSETS	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Charter Township of Midland (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

A. Reporting Entity

The Township is governed by an elected seven-member board. The accompanying financial statements present the Township operations for which the government is considered to be financially accountable. The Township has no component units and is not responsible for any jointly governed organizations.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township property tax is levied each December 1st on the taxable valuation of property (as defined by State statutes) located in the Township as of the preceding December 31st. Although the Township 2005 ad valorem tax is levied and collectible on December 1, 2005, it is the Township's policy to recognize revenue from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

The 2005 taxable valuation of the Township totaled \$60.6 million, on which ad valorem taxes levied consisted of 4.0000 mills for Township operating purposes. This amount is recognized in the General Fund as current tax revenue.

The government reports the following funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Flood Control Fund is a special revenue fund which accounts for expenditures on public works activities.

The Township Improvement Revolving Fund is a special revenue fund which accounts for the collections from water hookup fees and surcharges added to water bills which are to be used for the repayment of long-term debt.

The Water Debt Service Fund is a debt service fund which accounts for expenditures for long-term debt payments of the Township.

The Building Department Fund is special revenue fund which accounts for revenues from licenses and permits and expenditures for public safety activities.

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)**

Additionally, the government reports the following fund type:

The Current Tax Collection Fund is used to account for resources held by the Township in a purely custodial capacity. Money in this fund is from current tax collections. Timely distribution to the appropriate fund and local unit must be made in accordance with Section 43 of the General Property Tax Act.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D. Assets, Liabilities, and Net Assets

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.”

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on February 14th of the following year, at which time penalties and interest are assessed.

Capital Assets—Capital assets, which include property, plant, and equipment are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets (Continued)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	25 to 40 years
Building improvements	20 to 40 years
Water systems	50 years
Fire apparatus	25 years
Fire equipment	5 to 25 years
Office equipment	5 to 10 years
Computer equipment	5 to 10 years

Long-Term Obligations—In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information—Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the debt service funds. All annual appropriations lapse at fiscal year end. The budget document presents information by fund, function, department or activity, and line items. The legal level of budgetary control adopted by the governing body is the department or activity level. The Township had no expenditures in excess of the budgeted amounts for the year ended December 31, 2005.

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005**

NOTE 3. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptances of United States banks' commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Township Board has designated five banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory as listed above.

The Township's deposits and investment policy are in accordance with statutory authority.

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total
Cash and cash equivalents	<u>\$ 2,259,630</u>	<u>\$ 491,623</u>	<u>\$ 2,751,253</u>

The breakdown between deposits and investments is as follows:

Bank Deposits (checking and savings, certificate of deposit)	<u>\$ 2,751,253</u>
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The bank balance of the government deposits is \$2,751,253, of which \$500,000 is covered by federal deposit insurance.

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005**

NOTE 3. DEPOSITS AND INVESTMENTS (continued)

Investment and Deposit Risk

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. The government does not have a deposit policy for custodial credit risk. At year end, the Township had \$2,251,253 of bank deposits (certificates of deposit, checking and savings accounts) that were potentially uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, that the Charter Township of Midland will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the Township had no investment activity.

Interest Rate Risk. Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. State law limits the allowable investments and the maturities of some of the allowable investments. The Township's current investments have no potential interest rate risk.

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005**

NOTE 4. CAPITAL ASSETS

Capital asset activity of the Township for the current year was as follows:

Governmental Activities	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 102,400	\$ -	\$ -	\$ 102,400
Capital Assets Being Depreciated				
Buildings and improvements	612,099	-	-	612,099
Township equipment	35,277	-	-	35,277
Fire department equipment	83,656	15,000	-	98,656
Fire department vehicles	731,867	-	-	731,867
Water system	3,586,660	-	-	3,586,660
Subtotal	5,049,559	15,000	-	5,064,559
Less Accumulated Depreciation for				
Buildings and improvements	259,071	14,596	-	273,667
Township equipment	30,080	3,538	-	33,618
Fire department equipment	19,579	6,132	-	25,711
Fire department vehicles	432,759	21,556	-	454,315
Water System	341,360	71,733	-	413,093
Subtotal	1,082,849	117,555	-	1,200,404
Net Capital Assets Being Depreciated	3,966,710	(117,555)	-	3,864,155
Governmental Activities Capital Assets – Net of Depreciation	\$ 4,069,110	\$ (102,555)	\$ -	\$ 3,966,555

Depreciation expense was charged to programs of the Township as follows:

General Government	\$ 17,076
Public Safety	28,746
Public Works	<u>71,733</u>
	<u>\$ 117,555</u>

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005**

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The amount of interfund receivables and payables are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
General	\$ 125,059	General	\$ 199,193
Township Impr.	199,745	Township Impr.	37,094
Building Dept.	1,518	Building Dept.	552
		Tax Collection	89,483
Total	<u>\$ 326,322</u>		<u>\$ 326,322</u>

NOTE 6. LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties that directly benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

The County of Midland, on behalf of the Township, issued Water Supply System bonds. The Township is responsible for payment of such bonds and debt service which is being financed by a combination of hookup/user fee charged to property owners, and a debt service and maintenance surcharge added to water bills. Revenue from the hookup fee is being recognized in the Township Improvement Revolving fund. The expenditures for debt service made are reflected in the Water Debt Service fund.

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005**

NOTE 6. LONG-TERM DEBT (continued)

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Balance 01-01-05</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12-31-05</u>
2000 Water Supply Bonds; due 12/31/2019	5.35%	<u>\$ 3,215,000</u>	<u>-</u>	<u>\$ 145,000</u>	<u>\$ 3,070,000</u>

Scheduled payments of long-term debt for years subsequent to December 31, 2005 are as follows:

<u>Year Ending December 31,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	\$ 164,245	\$ 155,000	\$ 319,245
2007	155,952	160,000	315,952
2008	147,392	170,000	317,392
2009	138,297	180,000	318,297
2010	128,667	190,000	318,667
Thereafter	<u>632,634</u>	<u>2,215,000</u>	<u>2,847,634</u>
	<u>\$ 1,367,187</u>	<u>\$ 3,070,000</u>	<u>\$ 4,437,187</u>

NOTE 7. RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The Township has purchased commercial insurance for these types of claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 8. PENSION PLAN

The Township's defined contribution pension plan investments are held in trust by the fiduciary, Manufacturers Life Insurance Company. Michigan Compiled Laws, Section 38.1132, authorizes the Township pension plan to invest in a wide variety of investments including stocks, bonds, certificates of deposit, real estate, annuity contracts obligations of a specified nature, and real property. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Township provides pension benefits to members of the Township Board of Trustees for those who elect to participate.

**CHARTER TOWNSHIP OF MIDLAND
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005**

NOTE 8. PENSION PLAN (continued)

Contributions to the pension plan are based on 7.5% of wages for Township Board members. Benefits in the plan vest immediately at 100%.

For the year ended December 31, 2005 the Township made its contribution of \$3,051. The value of the plan's assets and vested benefits as of December 31, 2005 is \$32,569.

NOTE 9. URBAN COOPERATION ACT AGREEMENT

On December 24, 1992, the Charter Township of Midland and the City of Midland entered into an Urban Cooperation Act agreement. Under this agreement, revenue derived from the levy of ad valorem property taxes of specific taxes levied in lieu of general ad valorem property taxes of a portion of the commercial and industrial property located within the city of Midland will be shared with the Charter Township of Midland. In return for the revenue sharing agreement, the Township agrees that its Township board, during the duration of this agreement, will assist the City of Midland and agrees to provide water service at their expense to a certain City/Township boundary. The duration of this is thirty years, beginning on the effective date of December 30, 1992, and continuing to December 31, 2022.

**CHARTER TOWNSHIP OF MIDLAND
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2005**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes and related fees	\$ 220,000	\$ 220,021	\$ 242,128	\$ 22,107
Licenses and permits	25,800	25,800	18,781	(7,019)
State aid	172,800	172,800	173,796	996
Charges for services	23,500	23,500	27,661	4,161
Interest and dividends	7,470	7,470	31,786	24,316
Rents and royalties	3,000	3,000	2,743	(257)
Fines and forfeits	-	-	510	510
Miscellaneous	2,500	2,500	2,901	401
Total revenues	455,070	455,091	500,306	45,215
EXPENDITURES				
General Government:				
Towship board	57,738	56,328	44,206	12,122
Supervisor	14,820	13,670	12,715	955
Treasurer	16,120	15,700	16,107	(407)
Assessing	12,000	12,000	12,000	-
Clerk	17,650	17,100	14,857	2,243
Elections	2,600	2,300	1,648	652
Board of review	1,225	1,000	920	80
Buildings and grounds	20,950	20,950	19,108	1,842
All other general government	198,775	199,275	134,042	65,233
Public Safety:				
Fire protection	61,900	61,900	61,220	680
Community Development:				
Planning and zoning	20,050	20,000	17,189	2,811
Capital Outlay:				
General government	5,000	5,000	-	5,000
Fire protection	17,000	17,000	15,000	2,000
Total expenditures	445,828	442,223	349,012	93,211
Excess (deficiency) of revenues over expenditures	9,242	12,868	151,294	138,426
OTHER FINANCING SOURCES (USES)				
Transfers-in	-	-	-	-
Transfers-out	-	-	(7,000)	(7,000)
Total other financing sources and uses	-	-	(7,000)	(7,000)
Net change in fund balances	9,242	12,868	144,294	131,426
Fund balances-beginning	1,192,021	1,192,021	1,192,021	-
Fund balances-ending	\$ 1,201,263	\$ 1,204,889	\$ 1,336,315	\$ 131,426

January 24, 2006

Members of the Township Board of Trustees
Charter Township of Midland
Midland County, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of the Charter Township of Midland, for the year ended December 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

REPORTABLE CONDITIONS

Bank Reconciliations (Repeat Comment)

Audit adjustments were required to reconcile cash balances to the general ledger. As stated in the in the Michigan Department of Treasury's *Uniform Accounting Procedures Manual*, "All bank accounts must be reconciled to the local unit accounting records monthly. The clerk's records must agree with or reconcile to the treasurer's and the bank's records. A reconciliation sheet should be prepared in duplicate for each month with one copy for the clerk and one copy for the treasurer. Canceled checks are to be filed with the bank statement to which they apply." We recommend the Clerk and Treasurer submit this reconciliation along with the above reports monthly until the Board of Trustees is satisfied that this necessary reconciliation procedure is being performed on a monthly basis.

Inter-fund Procedures

During our audit, we noted certain transactions that are routinely conducted between funds were either not performed and/or not recorded correctly (city revenue sharing and inter-fund transfers). It is imperative that the Clerk and Treasurer be knowledgeable in fund accounting and understand the importance of the correct recording of transactions between funds. Therefore, we recommend the Clerk and Treasurer gain an understanding of fund accounting and the function of individual funds so that transactions between funds can be properly performed and recorded.

OTHER MATTERS

The following items, although not considered reportable conditions, are matters we believe worthy of your consideration.

Financial Oversight

The general limitations in any smaller municipalities like the Charter Township of Midland requires that Board of Trustee members continue to remain involved in the financial affairs of the Township through oversight of operation, development of the annual budget, inquiries about variance between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions. Based on inquiries with the Clerk, the Board of Trustees perform these duties and our recommendations is to continue strong oversight of financial affairs.

Other Items

Previous Treasurer used two bank accounts (one savings and one checking) for both the summer tax collections and winter tax collections. Current Treasurer chooses to deposit directly to the checking and issue tax checks from the same without using the savings accounts. Recommend that the remaining balances be moved from the two savings accounts and accounts be closed out.

Also upon receipt of bank confirmations from Chemical Bank, it was discovered that two additional accounts belonged to the Township not previously identified. Initially these two accounts were not identified to auditors at the time of the Township's field work; upon review by Treasurer it looks as though these accounts were previously used for the deposits of delinquent tax collections. Amounts in both accounts are less than \$500, and since they are not being utilized it is also recommended that funds be transferred and these two accounts be closed.

Members of the Township Board of Trustees
Charter Township of Midland
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Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the December 31, 2004, financial statements, and this report does not affect our report on those financial statements dated April 8, 2005. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the Board of Trustees, management and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Burnside & Lang, P.C.

BURNSIDE & LANG, P.C.